June 6, 1994

FIRST AMENDMENT
to the
WATER PURVEYOR CONTRACT

Between

THE CITY OF SEATTLE

and

for the

SUPPLY OF WATER

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FIRST AMENDMENT TO THE

WATER PURVEYOR CONTRACT

THIS AMENDMENT to the Water Purveyor Contract is entered between the CITY OF SEATTLE, a municipal corporation of the State of Washington, hereinafter the "City", and ____ hereinafter the "Participating Purveyor."

SECTION 1. USE OF THIS AMENDMENT.

Because this Amendment deals with a number of complex concepts which may be understood only in relation to relevant background information, several devices have been used to assist the reader in understanding. Section 2 of the Amendment, "Background and Purposes," is intended to provide the reader basic information about the original Water Purveyor Contract and the reasons for this Amendment. Similarly, at the beginning of the most complex sections, an Introduction is provided to explain background issues and how the Amendment addresses those issues. The Amendment uses italics to identify specialized terms or phrases that are defined either in Section 2 (Definitions) or elsewhere in the Amendment. Further, descriptions of most financial computations have been stated as algebraic formulas to add rigor and clarity. Lastly, examples are provided throughout the Amendment to illustrate formulas and complex provisions. Section 2, Background and Purposes, and the Introductions and Examples contained in this Amendment may be considered in the event of a dispute over the interpretation of a formula or a provision of the Amendment; however, if a direct conflict arises between these materials and the express terms of a formula or a provision, the express terms shall govern.

SECTION 2. BACKGROUND AND PURPOSES.

The City of Seattle provides wholesale water service to a number of municipalities, water districts, and other entities referred to as "purveyors" in this Amendment. With a few exceptions, all of the purveyors and the City have separately entered into either Version A or B of the Water Purveyor Contract which provides for wholesale water service on a long-term basis. In this Amendment, Version B of the Water Purveyor Contract shall be referred to as the "Contract," and the purveyors that have signed Version B shall be referred to collectively as the "Purveyors" or individually as the "Purveyor."

The rates the City charges all purveyors for wholesale water service are determined using methods specified under the Contract. Rates are based on the projected costs of the Regional Water Supply System in a given time period and the projected amount of purveyor water consumption in the same time period. The Contract provides for two purveyor water rates, the old water rate and the growth charge. The growth charge added to the old water rate is commonly referred to as the new water rate.

The old water rate is determined by adding up the projected purveyor costs associated with old water facilities, and dividing those costs by the projected amount of purveyor consumption. "Old water facilities" are Regional Water Supply System facilities which are not New Expansion Facilities, a term defined in the Contract as new facilities constructed after March 1, 1982, which expand the Regional Water Supply System and which do not replace or rehabilitate existing facilities. Likewise, the growth charge is determined by adding up the projected purveyor costs associated with New Expansion Facilities and dividing those costs by the projected amount of purveyor "new consumption" (a term also defined in the Contract). Projections are later reconciled with actual experience through the Purveyor Balance Account.

The Contract provides that the purveyor costs associated with old water facilities are to be determined using the utility basis, which establishes costs by totaling operation and maintenance expenses, depreciation, and the product of rate of return and the rate base. By contrast, the Contract provides that the purveyor costs associated with New Expansion Facilities are to be determined using the cash basis, which establishes costs by totaling operation and maintenance expenses, revenue financed capital, and debt service.

Under the Contract, costs are allocated between the purveyors and the City's direct service customers on a facility-by-facility basis. In most cases, the allocation factors for old water facility costs are based upon the percentage of water associated with a given facility that the purveyors use during specified times in the current year. Conversely, the allocation factors for New Expansion Facility costs are based on a one-time projection of the percentage of water associated with the facility that the purveyors will ultimately use when the facility is operated at full capacity. Unlike allocation factors for old water facilities, allocation factors for New Expansion Facilities are fixed for the life of the facility.

Several disputes have arisen with respect to purveyor water rates. In particular, disputes have arisen over the manner and method of determining the rate of return which is used to determine the purveyor costs associated with old water facilities. In addition, a dispute has arisen over whether the City should be permitted to allocate a portion of the costs of rehabilitating the *Tolt Pipeline* to the purveyors using the same allocation method applied to other old water facilities. The Amendment is intended to reach a settlement of these issues between the City and the Participating Purveyor which will avoid potentially costly and lengthy litigation.

The Amendment, in addition, is intended to provide greater specification of a number of general provisions of the Contract, including, among others, provisions of the Contract dealing with conservation program costs, watershed costs, working capital, and the Purveyors' share of the conveyance value of New Expansion Facilities in the event of conveyance. The parties believe that such further specification is a reasonable interpretation of and fully consistent with the Contract.

Finally, the Amendment is intended to provide several new provisions to assist the City and the Participating Purveyor in carrying out the objectives of the Contract. Two notable additions are the provisions involving joint City and Purveyor funding of new projects through Joint Facility Agreements and the provisions allowing for payment of specified administrative expenses of the Purveyor Committee.

SECTION 3. DEFINITIONS.

Unless another meaning is expressly provided in this Amendment, all terms used in the Amendment shall have the same meaning as that given to such terms in the Contract. For purposes of this Amendment:

1. Book value means the original cost of an asset, plus additions and betterments, less accumulated depreciation and retirements.

2. Conveyance value of a facility shall be the monetary value of all consideration given for such facility under a conveyance agreement or a court order. If any part of the consideration is to be paid in installments, the value of such consideration, including any interest paid, shall be its present value at the time of conveyance.

3. Equity interest is the total compensation that all Participating Purveyors will receive under the terms and conditions of Section 6 below if the City conveys the *rehabilitated Tolt Pipeline* (or a portion thereof) to another entity.

4. Involuntary conveyance means any conveyance which occurs through condemnation or by mandate of law which the City is not legally authorized to override.

5. Original Tolt Pipeline means the water transmission pipeline constructed prior to 1987 that begins at the Tolt Regulating Basin and terminates at the Lake Forest Reservoir.

6. Rehabilitated Tolt Pipeline means any portion of the *original Tolt Pipeline* that is replaced or rehabilitated and substantially completed and put into service before January 1, 2002.

7. Tolt Pipeline means Tolt Pipeline #1, which is the water supply transmission pipeline that begins at the Tolt Regulating Basin and terminates at the Lake Forest Reservoir.

8. Voluntary conveyance means any conveyance which is not an involuntary conveyance.

SECTION 4. RATE OF RETURN.

Introduction:

Under the Contract the City is entitled to charge purveyors a return on the rate base which is allocated to purveyors, The rate of return is calculated from the weighted sum of two component rates, the *average cost of debt* and the *cost of equity capital.* The *average cost of debt* is the weighted average of interest rates paid by the City on outstanding Water Department debt. The *cost of equity capital* is defined by Subsection III.B. Of the Contract as "the return on alternative investment opportunities available to the City's customers." With respect to determining the rate of return, the Contract further states: other relevant indicators, such as comparative earnings of other utilities and the current cost of borrowed funds, may also be examined to support or modify the rate of return suggested by the weighted cost of capital."

The purveyors and the City have disagreed about the appropriate method to use to determine the *cost of equity capital.* From 1980-1988, the City used the comparative earnings method, which bases the *cost of equity capital* on the average tax-adjusted return to private water utility stockholders. In 1984, the Purveyor Balance Account (PBA) as provided for in the Contract was implemented. The PBA reports actual costs and adjusts for any accumulated surplus or deficit, so that to the extent feasible the Purveyors will pay no more or less than their actual costs of service. The Purveyor Committee has contended that since the PBA was implemented the City has charged an excessive rate of return because the PBA eliminates some of the risks faced by a private utility. In 1988, in an attempt to address purveyor concerns about the rate of return, the City adjusted the Tolt River supply costs downward. Since 1989, the City has used an alternative method to calculate the *cost of equity capital* that falls between the comparative earnings method and the Purveyor Committee's 1988 recommendation of projected current cost of debt.

Subsections 4.A and 4.B amend the Contract to provide for use of that alternative method by adding greater specification to the definitions of the *average cost of debt* and the *cost of equity capital.* Subsection 4.C also provides for a credit to the Participating Purveyor based upon a recomputation of costs recovered in 1987 and 1988 using the alternative method to determine the rate of return. The recomputation includes a credit to the City to reverse the 1988 downward adjustment to Tolt River supply costs. The net credit to all Participating Purveyors will be recorded in the Tolt Pipeline Account and utilized to calculate the Participating Purveyor equity interest as provided for in Sections 5 and 6 below. Finally, Section 4.D provides for a mutual release of liability with respect to the methods previously used to determine the rate of return.

4.A. METHOD OF COMPUTING AVERAGE COST OF DEBT.

The average cost of debt component of the rate of return, as referenced in Subsection III.B. of the Contract, shall be the weighted average of the coupon rates on all outstanding bond indebtedness of the Seattle Water Department, excluding defeased or advance refunded bonds, with the weights being the amount of debt outstanding at each rate divided by total bond debt outstanding.

4.B. METHOD OF COMPUTING COST OF EQUITY CAPITAL.

The *cost of equity capital* component of the rate of return, as referenced in Subsection III.B. of the Contract, shall be the greater of (a) the *average cost of debt plus* 30 basis points or (b) the *current cost of long-term debt.*

The *current cost of long-term debt* shall be, the effective yield for a 20-year maturity from the Seattle Water Department's most recent debt issuance (including refinancing) if issued during the calendar year being accounted for. Otherwise, the *current cost of long-term debt* shall be estimated by adjusting the average yield of the weekly Bond Buyer 20-Bond Index (or a mutually agreed replacement) during the month of June by the difference between the Department's effective yield for a 20-year maturity and that Index (or replacement) as of the date of the Department's last debt issuance.

Example of computing *cost of equity capital:*

In 1991, the Seattle Water Department had outstanding 11 bond issues (excluding defeased and advanced refunded bonds), each with serial maturities carrying different coupon rates. The *average cost of debt* is the weighted average of the various coupon rates. For 1991, the weighted average was 6.46%, and plus 30 basis points was 6.76%.

In 1991, there was no Seattle Water Department bond issuance with a 20-year maturity. The most recent debt issuance with a 20-year maturity was on April 10, 1990; the effective yield for such maturity was 7.22%. The weekly Bond Buyer 20-Bond Index was 7.31% on April 11, 1990, for a difference of -0.09 percentage points. The average yield of the weekly Bond Buyer Indexes during the month of June 1991 was 7.13%. Adjusting this average by the difference of 0.09 produces a *current cost of long-term debt* for the Department in 1991 of 7.04%.

Accordingly, since the *current cost of long-term debt* was greater than the *average cost of debt* plus 30 basis points, the *cost of equity capital* for 1991 was 7.04%.

4.C. RECOMPUTATION OF PURVEYOR COSTS RECOVERED IN 1987-1988.

The costs the City recovered from the purveyors in the years 1987 and 1988 were not computed using the method for computing the *cost of equity capital* set forth in Subsection 4.B. The amount of purveyor costs for the years 1987 and 1988 shall be recomputed using such method.

Further, in 1988, the City reduced the rate base for Tolt supply costs, with corresponding adjustments in depreciation and operation and maintenance expenses, to recognize purveyor concerns about the *cost Of equity capital*. The recomputation of purveyor costs for 1988 shall include a credit to the City in an amount equal to the savings to the Participating Purveyors from such reduction and corresponding adjustments.

The difference between the amount of Participating Purveyor costs actually charged for 1987 and 1988 and the amount of Participating Purveyor costs as recomputed shall be recorded in the Tolt Pipeline Account established in Section 6 of this Amendment and utilized under Formula 1 (Subsection 6.A.1 *infra)* to calculate the Participating Purveyor equity interest. The amount so recorded shall include simple interest from January 1, 1988, through December 31, 1990, computed annually on the prior year's cumulative balance (including interest) at the *cost of equity capital* as applied in the Purveyor Balance Account. The parties hereby confirm that the *cost of equity capital* for the years 1989 through the effective date of this Amendment was computed using the method set forth in Subsection 4.B.

4.D. MUTUAL RELEASE OF LIABILITY FOR COST OF EQUITY CAPITAL.

The Participating Purveyor and the City release each other from all liability or claims that they have or could have asserted against each other with respect to the methods the City has used to calculate the *average cost of debt* and the *cost of equity capital* under the Contract. This release does not cover any disputes which may arise over whether the methods set forth in Subsections 4.A and 4.B have been properly applied as distinguished from whether the methods are proper.

SECTION 5. ALLOCATION OF COSTS OF REHABILITATED TOLT PIPELINE.

Introduction:

Between 1958 and 1962, the City constructed the Tolt *Pipeline,* the 24 mile transmission line originating at the Tolt Regulating Basin. For depreciation purposes, its life was set at 50 years. Two breaks occurred in the pipeline respectively in 1987 and 1988. Following a study of the pipeline affected, it was determined that approximately 13 miles of the pipeline were subject to breaks from a hydrogen embrittlement condition of the spiral rods that support the pipeline. Beginning in 1990, the City rehabilitated through a combination of replacement, relining, and other means, all but a one-mile segment of the portion of the Tolt Pipeline affected by the hydrogen embrittlement, at an approximate cost of $33 million. The remaining mile affected is scheduled for rehabilitation in the late 1990's, at an approximate cost of $4-5 million.

Since 1990 the City has allocated the costs of the rehabilitation of the Tolt Pipeline using the same method used for other old water facilities. However, several Purveyors have contended that negligence of the City was a contributing cause of the premature failure of tile Tolt Pipeline and that the City as owner of the regional water system should accept more responsibility for the rehabilitation costs.

The City denies all of these allegations; however, as a compromise resolution of this issue, Section 5.A provides that the costs of the *rehabilitated Tolt Pipeline* shall continue to be treated for ratemaking purposes as a standard old water facility, but if the City conveys the *rehabilitated Tolt Pipeline* (or a portion thereof) during its useful life, the Participating Purveyors shall be paid an *equity interest*. That interest is determined by the specific formulas and the terms and conditions set forth in Section 6.

Section 5.B also sets forth the method by which the City will treat losses associated with the premature retirement of the *original Tolt Pipeline*. Such losses will not be included in the rate base (and thereby charged a rate of return) but will be amortized and allocated to purveyors over a specified number of years. However, Section 5.C provides that all Participating Purveyors will receive a credit for such losses they pay through water rates from 1993 forward, and that Participating Purveyors who sign the Amendment before a specified date will receive a credit for such losses they have paid through past water rates from 1990 to 1992.

Section 5.D provides for a release of liability to the City associated with the allocation of costs of the *rehabilitated Tolt Pipeline* to the Participating Purveyor through old water rates and an acknowledgement that any portion of the *original Tolt Pipeline* that is rehabilitated after January 1, 2002, has served its useful life.

Finally, although there is provision for events should the City convey all or part of its water system, there is no intent by the City to do so and none should be inferred from the language in this Amendment.

5.A. METHOD OF COST ALLOCATION AND COMPENSATION IN EVENT OF CONVEYANCE

The costs of the *rehabilitated Tolt Pipeline* shall continue to be included in the old water rate base and allocated to purveyors in a manner generally consistent with the methodologies utilized in previous rate studies. However, in the event that the *rehabilitated Tolt Pipeline* (or a portion thereof) is conveyed to another entity or entities, the Participating Purveyor shall receive compensation equal to its percentage share of the *equity interest* of all Participating Purveyors in the pipeline as determined under the terms and conditions set forth in Section 6 below.

5.B. ALLOCATION OF LOSS RECORDED FOR THE TOLT PIPELINE.

If a loss upon retirement is recorded for any portion of the *original Tolt Pipeline* which is replaced or rehabilitated before January 1, 2002, such loss shall not be included in the rate base but shall be amortized over the remaining life of such portion; however, if such a loss is recorded for any portion of the *original Tolt Pipeline* which is replaced or rehabilitated after January 1, 2002, such loss shall be included in the rate base and shall be amortized over the remaining life of such portion. The amortized expense shall be allocated to the purveyors using the same allocation factors as are used for the segment of the *Tolt Pipeline* on which the loss was incurred. For purposes of this provision, the remaining life of any portion of the *Tolt Pipeline* which is replaced or rehabilitated shall be as follows:

i. Twenty years from the date of recording if a loss for that portion was recorded before the effective date of this Amendment; or

ii. Determined by subtracting the number of years the portion was in service from an original life of fifty years if a loss for that portion is recorded on or after the effective date of this Amendment.

5.C. ANNUAL CREDIT OF AMORTIZED PORTION OF ANY LOSS.

Beginning with the year 1994, the City shall within one hundred and eighty days after the conclusion of each fiscal year credit the water bill of each Participating Purveyor for the amortized portion of any loss the Purveyor has paid in such year. Further, if the Participating Purveyor signs this Amendment no later than ninety days after the effective date of an ordinance authorizing the City to enter into this Amendment, the Participating Purveyor shall receive a credit on its water bill within one hundred and eighty days of the effective date of this Amendment from the City for the amortized portion of any loss the Participating Purveyor has paid through rates for the years 1990-1993.

5.D. RELEASE OF LIABILITY FOR REHABILITATION COSTS.

The Participating Purveyor hereby releases the City from all liability or claims that it has asserted or could have asserted against the City arising out of the allocation to the purveyors through old water rates of the costs of (1) the *rehabilitated Tolt Pipeline,* (2) the emergency repairs of such pipeline in connection with pipeline breaks in 1987 and 1988 respectively, including any claims or liability arising from such breaks, and (3) the losses associated with retirement of the *original Tolt Pipeline* before its expected life of 50 years.

Further, any portion of the *original Tolt Pipeline* for which notice to proceed to rehabilitate (including replace) such portion is issued after January 1, 2002, shall be considered to have served its useful life, and the Participating Purveyor agrees to release the City from all liability or claims arising from or in any way connected to an express or implied allegation that such portion of the *original Tolt Pipeline* did not serve its useful life.

SECTION 6. *TOLT PIPELINE EQUITY INTEREST.*

Introduction:

Section 6 sets out the terms and conditions under which the Participating Purveyors shall receive payment of the *equity interest* provided for in Section 5 in the event that tile *rehabilitated Tolt Pipeline* (or a portion thereof) is conveyed.

Subsection 6.A sets forth the alternative formulas which would be used to determine the amount of the *equity interest if* a *voluntary conveyance* occurs. The *equity interest* is to be the lesser amount determined by Formula 1 or Formula 2, but in no case less than Formula 3. Formula 1 credits the Participating Purveyors for depreciation they paid including interest and for the recomputation of purveyor costs for 1987-1988 provided for in Subsection 5.C. Formula 2 credits the Participating Purveyors for a percentage of the conveyance value of the *rehabilitated Tolt Pipeline,* the percentage being equal to the share of depreciation the Participating Purveyors have paid for the pipeline. Formula 3 also credits the Participating Purveyors for a percentage of the conveyance value of the *rehabilitated Tolt Pipeline,* the percentage being equal to the total depreciation paid by the Participating Purveyors divided by the original cost of tile *rehabilitated Tolt Pipeline.*

Subsection 6.B sets forth the calculations which would be used to determine the amount of the *equity interest* if an *involuntary conveyance* occurs. In such case, the amount of the *equity interest* would be one-half of the amount provided under Subsection 6.A or a lesser amount if the amount determined by Formula 4 is less. Formula 4 subtracts from the *equity interest* computed under Subsection 6.A the Participating Purveyors' share of the outstanding debt of the *rehabilitated Tolt Pipeline.*

Subsection 6.C provides that if only a portion of the *rehabilitated Tolt Pipeline* is conveyed the amount of the equity interest as determined under Subsections 6.A and 6.B shall be based on values corresponding to the portion conveyed.
Subsection 6.D defines the individual share of the Participating Purveyor of the *equity interest,* and Subsection 6.E provides that any contract to convey the *rehabilitated Tolt Pipeline* shall provide for the purchaser to pay such individual share.

Subsection 6.F sets forth some general conditions for assigning a *conveyance value* to the *rehabilitated Tolt Pipeline* for the purposes of calculating the *equity interest.* It provides that the assigned value shall be reasonable in view of the estimated market value of the facility.
Subsection 6.G defines the term during which Participating Purveyors are entitled to obtain payment of the *equity interest* if the *rehabilitated Tolt Pipeline* is conveyed. That term ends at the end of the useful life of the facility, which in no case shall be longer than 60 years.

Subsection 6.H creates a special account (the Tolt Pipeline Account) to record the financial data necessary to compute the *equity interest* under Formula 1. Similarly, Subsection 6.H provides for an annual accounting to Participating Purveyors of consumption data which will allow calculation of each Participating Purveyor's individual share of the *equity interest.*

Finally, although there is provision for events should the City convey all or part of its water system, there is no intent by the City to do so and none should be inferred from the language in this Amendment.

6.A. COMPUTATION OF *EQUITY INTEREST* IF VOLUNTARY CONVEYANCE.

Although it is not anticipated that a *voluntary conveyance will* occur, in the event of a *voluntary conveyance* of the *rehabilitated Tolt Pipeline* (or a portion thereof), the *equity interest* of all Participating Purveyors shall be the lesser of the amount determined by Formula 1 or Formula 2 below, except that in no case shall the *equity interest* be less than the amount determined by Formula 3. If Formula 1 is used to calculate the *equity interest,* then the City shall be entitled to recover a return and depreciation on the portion conveyed for the year of conveyance.

6.A.1. FORMULA 1.

$E_1 = R(1+i_{1991}) \text{ x } (1+i_{1992}) \text{ x...x } (1 + i_{year})$

$+[D_{1990} \text{ x } (1+i_{1991}) \text{ x } (1+i_{1992}) \text{ x...x } (1+i_{year})$

$+[D_{1991} \text{ x } (1+i_{1992}) \text{ x } (1+i_{1993}) \text{ x...x } (1+i_{year}) +\ldots+ D_{year}] \text{ x } (1-.02n)$

Where

E_1 = equity *interest* per Formula 1 at date of conveyance

R = Net difference in Participating Purveyor costs, including interest, as provided in Subsection 4.C.

I = *Cost of equity capital* for each year; in the year of conveyance, will be calculated to the date of conveyance, and rounded to three decimal places

D = Depreciation expenses recovered from Participating Purveyors in a given year for the *rehabilitated Tolt Pipeline;* in the year of conveyance, depreciation expenses will calculated to the date of conveyance

year = Year in which conveyance occurs

n = Number of years between January 1, 1991, and the date of conveyance, calculated to two decimal places

Example of Formula 1:

If the *rehabilitated Tolt Pipeline* were sold on January 1, 1994, and

the net difference in purveyor costs (R) is $200,000, and

depreciation expenses recovered from Participating Purveyors in a given year

(D) are $600,000 for each year, and

the rate of return on the City's equity capital (i) is 7% for each year (D_{1990}...),

then E_1 = $200,000 x 1.070' + ($600,000 x 1.070' + $600,000 x 1.070' +

$600,000 x 1.070 + $600,000) x (l- (.02 x 3.00))

and E_1 would equal $2,749,136.

6.A.2. FORMULA 2.

$E_2 = (P/T) \times C$

Where

E_2= *equity interest* per Formula 2 at date of conveyance

P = Cumulative de depreciation expenses recovered from Participating

Purveyors beginning in 1990 to date of conveyance for the *rehabilitated Tolt Pipeline*

T = Cumulative depreciation expenses of all purveyors and the City beginning in 1990 to date of conveyance for the *rehabilitated Tolt Pipeline*

C = Value assigned to the *rehabilitated Tolt Pipeline* conveyed per Subsection 6.F.

Example of Formula 2

If the *rehabilitated Tolt Pipeline* were sold on January 1, 1994, and

the cumulative depreciation expenses recovered from Participating Purveyors beginning in 1990 to date of conveyance for the *rehabilitated Tolt Pipeline (P)* were $2,400,000, and

the cumulative depreciation expenses of all purveyors and the City beginning in 1990 to date of conveyance for the *rehabilitated Toll Pipeline* (T) were $3,200,000, and

the *conveyance* value were $36,800,000 (C), then E_2 would equal $27,600,000.

6.A.3 FORMULA 3.

$E_3 = (P/0) \times C$

Where

E_3 = *equity interest* per Formula 3 at date of conveyance

P = Cumulative depreciation expenses recovered from Participating Purveyors beginning in 1990 to date of conveyance for the *rehabilitated Tolt Pipeline*

0 = Original Cost of the *rehabilitated Tolt Pipeline*

C = Value assigned to the *rehabilitated Tolt Pipeline* per Subsection 6.F.

Example of Formula 3:

If the *rehabilitated Tolt Pipeline* were sold on January 1, 1994, and the cumulative depreciation expenses recovered from Participating Purveyors beginning in 1990 to date of conveyance for the *rehabilitated Tolt Pipeline (P)* were $2,400,000, and

the original cost of the *rehabilitated Tolt Pipeline* were $40,000,000 (0), and

the *conveyance value* were $36,800,000 (C),

then E_3 would equal $2,208,000.

Accordingly, in the example provided for Formulas 1-3 above, the value of the *equity interest* would be $2,749,136 because the *equity interest* under Formula 1 ($2,749,136) is less than the *equity interest* under Formula 2 ($27,600,000), but greater than the *equity interest* under Formula 3 ($2,208,000).

6.B. COMPUTATION OF EQUITY INTEREST IF INVOLUNTARY CONYEYANCE. Although it is not anticipated that an *involuntary conveyance* will occur, if an *involuntary conveyance* of the *rehabilitated Tolt Pipeline* (or a portion thereof) occurs, the *equity interest* shall be the lesser of: (a) fifty percent of the amount computed under Subsection 6.A, or (b) the amount determined by Formula 4 below.

6.B.1. FORMULA 4.

$E_4 = E - [(P/T) \times B]$

Where

E_4 = *equity interest* per Formula 4 at date of conveyance

E = Participating Purveyors' *equity interest* as computed under Subsection 6.A., i.e., the lesser of El or E2, but in no case less than E_3

P = Cumulative depreciation expenses recovered from Participating Purveyors beginning in 1990 to date of conveyance for the *rehabilitated Tolt Pipeline* conveyed

T = Cumulative depreciation expenses of all purveyors and the City beginning in 1990 to date of conveyance for the *rehabilitated Tolt Pipeline*

B = Total outstanding debt at date of conveyance for the portion of the *rehabilitated Tolt Pipeline* in question at the time of *involuntary conveyance*

If the *equity interest* computed under this Subsection is a negative number, the *equity interest* shall be considered to be zero.

6.C. EQUITY INTEREST IF PARTIAL CONVEYANCE.

Although it is not anticipated that a conveyance will occur, in the event that a portion of the *rehabilitated Tolt Pipeline* is conveyed, the numbers used in the formulas shall include only such amounts as correspond to the portion conveyed. If only a portion is conveyed and the amount of depreciation recovered from Participating Purveyors for such portion cannot be reasonably determined, such amount shall be determined by using the ratio of the estimated original cost of the portion conveyed to the original cost of the entire *rehabilitated Tolt Pipeline.*

6.D. PERCENTAGE SHARE OF PARTICIPATING PURVEYOR.

The percentage share of each Participating Purveyor of the *equity interest* shall be equal to the ratio of the wholesale consumption by volume for the Participating Purveyor for the year 1990 through the year preceding the conveyance to the total wholesale consumption by volume for all Participating Purveyors during that same period of time.

6.E. METHOD OF COMPENSATING PARTICIPATING PURVEYORS.

Although it is not anticipated that a conveyance will occur, if the *rehabilitated Tolt Pipeline* or any portion thereof is conveyed, the City shall provide in any contract for conveyance that the acquiring entity or entities shall distribute to each Participating Purveyor its percentage share of the *equity interest.* Such contract of conveyance shall provide for direct payment by the acquiring entity (or entities) to the Participating Purveyor within 120 days of the conveyance or through any other arrangement agreed to by the Participating Purveyor and the acquiring entity. However, in no case shall the City be required to pay such compensation directly to the Participating Purveyor.

6.F. CONVEYANCE *VALUE* OF REHABILITATED PORTION OF THE *TOLT PIPELINE.*

Although it is not anticipated that a conveyance will occur, any contract for conveyance of the *rehabilitated tolt pipeline* (or a portion thereof) shall assign a separate *conveyance value* to the facility for the purpose of determining the amount of compensation due the participating purveyors. The assigned *conveyance value* shall be reasonable in view of the estimated market value of the facility and shall be presumed to be not less than the *book value of* the portion conveyed unless the city shows by an appraisal that a lesser value is appropriate. The city's appraisal shall be done by an independent appraiser and use methods that are generally accepted for appraisal of like facilities. It is understood that the assigned *conveyance value* shall not include the value of any interests in real property associated with the *rehabilitated tolt pipeline* or any value added as a result of the expansion of the capacity of the *original tolt pipeline.* It is agreed that no rehabilitation or replacement done prior to the effective date of this amendment has expanded the capacity of the *original tolt pipeline.*

6.G. TERM OF EQUITY *INTEREST.*

The right of the Participating Purveyor to obtain its percentage share of the *equity interest* in the event of a conveyance shall continue until the *rehabilitated Tolt Pipeline* has reached the end of its useful life. If a portion of the *rehabilitated Tolt Pipeline* reaches the end of its useful life, that portion shall no longer be considered a portion *of* the *rehabilitated Tolt Pipeline* for purposes of computing the *equity interest.* For purposes of this Section, "useful life" means the period of time that the portion of the *rehabilitated Tolt Pipeline* in question is in service for its intended purpose; however, the useful life of the *rehabilitated Tolt Pipeline* shall in no case exceed sixty years from the date the portion of such pipeline in question is first put into service. The *equity interest* in the *rehabilitated Tolt Pipeline* provided under this Section shall not be affected by the termination of the Contract; however, the provisions of this Section shall not furnish evidence of the original intent of the parties with respect to duration of the term of the Purveyor Facilities Account interest under the Contract.

6.H. TOLT PIPELINE ACCOUNT.

The City shall establish a new accounting statement entitled the Tolt Pipeline Account. The purpose of this accounting statement is to record amounts which shall be used to determine the *equity interest* if Formula 1 is used. This accounting statement is similar in concept to the Purveyor Facilities Account ("PFA") under the Contract. The following amounts shall be recorded in the Tolt Pipeline Account: (a) the difference associated with the recomputation of purveyor costs for the years 1987 and 1988, including interest, provided for in Subsection 4.C., together with the amount of return earned annually by applying the *cost of equity capital* to this difference; and (b) the annual depreciation expenses on the *Tolt Pipeline* rehabilitation project recovered from the Participating Purveyors as provided for in Subsection 5.A., together with the amount of return earned annually by applying the *cost of equity capital* to these depreciation expenses.

6.I. ANNUAL ACCOUNTING TO PARTICIPATING PURVEYORS.

The City shall provide an annual accounting to each Participating Purveyor of the status of, the Tolt Pipeline Account. This accounting will include consumption data for determining each Participating Purveyor's share of compensation in the event of a conveyance of a portion of the *rehabilitated Tolt Pipeline.* This accounting may be included with the statements for the Purveyor Balance Account or the Purveyor Facilities Account.

SECTION 7. JOINT FACILITY AGREEMENTS

Introduction:

Section 7 sets forth a procedure by which the City and Participating Purveyors may enter into Joint Facility Agreements for joint funding of future projects which are approved for such funding by the Seattle City Council. The terms of Joint Facility Agreements will be determined on a project-by-project basis. It is anticipated that such agreements would provide for a rate of return or other compensation to investing Participating Purveyors and additionally provide an equity interest, which would be realized in the event the project is conveyed.

7.A. PURPOSE OF JOINT FACILITY AGREEMENTS.

Joint Facility Agreements are for the purpose of allowing interested Participating Purveyors to invest in specific Capital Improvement Program ("CIP") facilities and thereby to obtain certain financial benefits. The Joint Facility Agreement shall specify the payments that the City shall make to Participating Purveyors that invest in a facility and the compensation due to such Participating Purveyors in the event that the facility is conveyed at a future date. Nothing in this Section shall preclude the City from entering into agreements with other investors for purposes of financing a CIP.

7.B. GENERAL PROCEDURE FOR ENTERING JOINT FACILITY AGREEMENTS.

i. If the City has identified any CIP projects that the City proposes to offer for joint investment, the City shall provide the Participating Purveyor with a copy of a proposed Joint Facilities Plan at the time of mailing the proposed CIP pursuant to Section VIII.A.5 of the Contract. The Joint Facilities Plan shall identify the facilities proposed for joint investment and state the proposed amount of investment. The City shall provide any Participating Purveyor an opportunity to comment on and propose changes to the proposed Joint Facilities Plan.

ii. After making any changes to the Joint Facilities Plan which the City deems appropriate, the City shall submit the proposed Joint Facilities Plan, including copies of any proposed changes which have not been incorporated into the plan, to its City Council for approval as submitted or as maybe modified. Such submission shall be made at the time the CIP is submitted for approval.

iii. If a Joint Facility Plan is authorized and if the City ultimately decides to pursue joint funding of a facility so authorized, it shall submit a proposed Joint Facility Agreement for such facility to all Participating Purveyors.

iv. The allocation of the amount of equity subscription offered to Participating Purveyors in a Joint Facility Agreement shall be determined as follows:

a. Initially, the amount of equity subscription available to each Participating Purveyor shall be limited to the percentage share of the Purveyor of the total water purchases by volume of all Participating Purveyors in the most recent calendar year.

Example:

If the City invites $10 million in equity subscription in a given project, and if a given Purveyor's share of total water purchases by volume of Participating Purveyors in the most recent calendar year is 15 percent, then this Purveyor's equity participation would be limited to $1.5 million.

b. If any of the offered equity in a joint facility is not subscribed, the City may at its discretion offer any portion of such unsubscribed equity to purveyors who have already subscribed to an equity portion of the facility.

7.C. ANNUAL ACCOUNTING TO SUBSCRIBING PURVEYORS.

The City shall provide an annual accounting to all subscribing purveyors which shall identify all contributions to a joint facility and the percentage share of each subscribing purveyor and the City in such facility.

SECTION 8. PURVEYOR FACILITIES ACCOUNT ("PFA").

Introduction:

The Contract provides that financial data for New Expansion Facilities be recorded in a Purveyor Facilities Account (PFA). Further, although the City is not contemplating conveyances, the Contract provides that in the event of the sale of a New Expansion Facility either the City will provide a credit to the purchaser or the purchaser will make a payment to the Purveyors to compensate for Purveyor contributions to such facility. Section 8 is intended to clarify two terms used in the Contract with regard to the payment of compensation to Purveyors if a New Expansion Facility is conveyed and to provide the Purveyors with financial data to determine their individual share of such compensation.

The first term clarified is the "contract-signing purveyors' share of ... conveyance value," as referred to Subsections III.F.2 and III.F.3 of the Contract. Subsection III.F.2 defines that term as follows: "the contract-signing purveyors' share shall be the percentage of the facilities' costs that have been allocated to and paid by the contract-signing purveyors since signing the contract." This definition, however, does not state the basis for determining the "facilities' costs." Subsection 8.A. provides that the "facilities' costs" are to be based upon the original cost of those facilities, unadjusted for inflation and depreciation.

The second term clarified is the "pro-rated share of the contract-signing purveyors' share of the conveyance value" as referred to in Subsection III.F.3 of the Contract. Subsection 8.B. of the Amendment defines the prorated share of each Purveyor in terms of the ratio of the total new water revenue ("growth charges") paid by the Purveyor beginning in 1984 through the year preceding the facility conveyance to the total new water revenue paid by all Purveyors during that same period of time.

8.A. CUMULATIVE SHARE OF ALL PURVEYORS.

The purpose of this Subsection is to clarify the method of determining the cumulative share of all Purveyors of the conveyance value of New Expansion Facilities, otherwise referred to as PFA facilities. The cumulative share of all Purveyors is referred to as the "contract signing purveyors' share of ... conveyance value" in Subsections III.F.2 and III.F.3 of the Contract. Such cumulative share shall be determined by multiplying the total conveyance value of the facilities upon sale times the ratio of Purveyor payments on principal recorded in the PFA for those facilities to the original cost of those facilities.

Example of 8.A:

Assume that the Highline Well Field was conveyed on January 1, 1992, for the amount of $5,000,000. Using data for the Highline Well Field from the 1991 PFA, the amount paid for the facility by all Purveyors since the Contract signing ($690,841) divided by total capital expenditures for the facility (5,744,137) is 12%. Accordingly, the cumulative share of all Purveyors would be $5,000,000 x 12% or $600,000.

8.B. INDIVIDUAL SHARE OF EACH PURVEYOR.

The purpose of this Subsection is to clarify the method for determining the individual share of each Purveyor of the cumulative share of all Purveyors defined in Subsection 8.A. The individual share of each Purveyor is referred to as the "pro-rated share of the contract signing purveyors' share of the conveyance value" in Subsection III.F.3. of the Contract. Although the City is not contemplating conveyances, such individual share shall be determined by multiplying the "contract signing purveyors' share of. . .conveyance value," as defined in Subsection 8.A. of this Amendment, times the ratio of the total new water revenue ("growth charges") paid by the Purveyor beginning in 1984 through the year preceding the conveyance to the total new water revenue paid by all Purveyors during that same period of time.

Example of 8.B:

Assume the Highline Well Field were conveyed on January 1, 1992, and it is necessary to determine the individual share of the City of Bellevue of the cumulative share of $600,000 of all Purveyors for the Highline Well Field as calculated in the example for Subsection 8.A. The 1991 Purveyor Statements indicate that the City of Bellevue paid $2,623,520 in growth charges from 1984 through 1991 and that all Purveyors paid $10,013,291 in growth charges for the same period. Thus, the individual share of the City of Bellevue for the Highline Well Field would be $2,623,520/$10,013,291 or 26.2%, times $600,000, which is $157,200.

8.C. RECORD KEEPING FOR NEW EXPANSION FACILITIES.

Although the City is not contemplating conveyances, the City shall maintain detailed records of the contributions of each Purveyor with respect to each New Expansion Facility included in the PFA so that if such facilities are conveyed, information is available to determine the percentage share of each Purveyor.

SECTION 9. CONSERVATION PROGRAM COST ALLOCATION.

Introduction:

Under the Contract, the City's regional water conservation program is to be implemented with the assistance and support of the Purveyors. The Contract also provides that the City's basis for allocating costs of its regional conservation program is to be reviewed and evaluated by an independent rate consultant as a part of each rate study. However, the Contract does not supply any specific principles by which conservation cost allocation shall occur. The purpose of this Section is to provide such principles.

Section 9 classifies conservation programs for purposes of cost allocation as local conservation, base conservation, and supply conservation. Local conservation costs are allocated only to the local entity involved. Base conservation costs are allocated using the allocation factor used to allocate the operation and maintenance expenses of existing old water supply facilities. Supply conservation costs, with certain limitations, are allocated using a similar allocation method to that used for New Expansion Facilities. Since Supply Conservation programs are generally to be treated as New Expansion Facilities, Section 9 accordingly provides for a equity payment to Purveyors in the event that such programs or other non-conservation New Expansion Facilities are conveyed.

9.A. CLASSIFICATION OF CONSERVATION PROGRAMS.

Programs, which are substantially related to the conservation of water, shall be classified for cost allocation purposes in one of the following categories:

9.A.1. *LOCAL CONSERVATION.*

Local conservation programs are those initiated, administered, and financed by the City or a purveyor that are not offered or applied, or intended to be offered or applied, to all similarly situated customers in the *region.* A pilot program for a *base conservation* or a supply *conservation* program shall be classified in the same manner as the potential regional program would be classified regardless whether the pilot program is offered or applied to the *region.* For purposes of Section 9, the term *region* shall refer to the direct service area of the City and of the purveyors to the extent supplied by the City.

9.A.2. *BASE CONSERVATION.*

Base conservation programs are those offered or applied, or intended to be offered or applied, to all similarly situated customers in the *region* that provide education, information, technical policy analysis, and/or support services associated with water conservation. Further, non-local conservation programs which do not qualify as *supply conservation will* be considered *base conservation.* Generally, the costs of these programs will not be funded as capital improvement projects. Programs conducted under this category may provide demand reduction, but the savings are difficult or impossible to quantify.

9.A.3. *SUPPLY CONSERVATION.*

Supply conservation programs are those offered or applied, or intended to be offered or applied, to all similarly situated customers in the *region* that provide for conservation measures which produce a reasonably quantifiable amount of water savings on a cost effective basis as cost effectiveness is defined in the Comprehensive Regional Water Plan. Except for unusual cases, programs under this category will be identified and funded through the City's Capital Improvement Program.

9.B. IMPLEMENTATION OF CLASSIFICATION.

No later than the preparation and audit of the annual Purveyor Statements for a year in which related costs are being recorded, the City's classification of conservation programs will be submitted for approval to the Purveyor Committee.

If the City and the Purveyor Committee cannot reach agreement on the classification of an ongoing program that is listed on Appendix A within 60 days of the date of submission to the Committee, the classifications on Appendix A shall remain in effect for such program.

If the City and Purveyor Committee cannot, reach agreement on the classification of a program that is not listed on Appendix A to this Amendment within 60 days of the date of submission to the Committee or within such other time as the Committee and the City may agree upon, an impasse will be deemed to have occurred and the City shall submit the question of classification to the independent rate consultant, who shall make a determination within 30 days of such submission. If no independent rate consultant is currently under contract, the City shall select a qualified independent rate consultant within 60 days after an impasse is reached. In making a determination on classification, the independent rate consultant shall give serious consideration to classifications given to similar programs as set forth in Appendix A and shall base such determination on the definitions and principles contained in this Section.

9.C. ALLOCATION OF CONSERVATION PROGRAM COSTS.

9.C.1. LOCAL CONSERVATION PROGRAMS.

The City shall not allocate the costs of local programs to the purveyors pursuant to the Contract.

9.C.2. *BASE CONSERVATION* PROGRAMS.

The City shall treat the costs of *base conservation* programs as old water costs and allocate such costs to the purveyors based on the weighted average of purveyor shares of total system peak season flows and average annual flows, with the weights reflecting the portions of existing old water supply facilities that are related to peak season versus annual flows. The balance of *base conservation* program costs shall be allocated to the City's direct service customers.

9.C.3. *SUPPLY CONSERVATION* PROGRAMS.

Subject to the limitations provided in Subsection 9.1) below, the City shall treat the costs of supply *conservation* programs as new water costs and allocate such costs to the purveyors based on the purveyors' share of growth in the City's wholesale and retail sales since 1980 measured by water volume. It is agreed that relative shares of growth in sales from 1980 to 1990 result in allocation factors of 77.6% to purveyors and 22.4% to the City's direct service customers. The above percentages will be used for all *supply conservation* programs initiated during the 1992-94 period. The allocation factors assigned a program shall remain unchanged for the accounting life of the program. Allocation factors for a new program will be set for the life of the program in the Purveyor Balance Account statement for the first year in which expenditures occur for the program.

9.C.4. RECLAIMED WATER AND RELATED PROGRAMS.

Section 9 and the cost allocation provisions therein shall not apply to programs which involve the use of reclaimed water (as defined under RCW title 90), well water that does not meet state or federal drinking water standards, storm water, or any non-potable water; however, programs which involve the reuse and treatment of non-potable water on the same site where the prior use occurred shall be covered by this Section. The City and the Purveyors may enter a separate agreement with respect to any program excluded from the coverage of this Amendment under this Subsection.

9.D. LIMITATIONS ON ALLOCATION OF SUPPLY CONSERVATION PROGRAM COSTS.

9.D.1. MARGINAL COST LIMITATION.

If the summer new water rate charged to the purveyors exceeds wholesale peak season marginal cost as a result of the allocation of the costs of *supply conservation* costs pursuant to Subsection 9.C.3, the costs of new *supply conservation* programs (or portions PP thereof) will be allocated as *base conservation* programs until such point that the new water rate is equal to wholesale peak season marginal cost, as defined by the most recent rate study.

9.D.2. COST SHARING LIMITATION.

Introduction:

Most Supply *Conservation* programs will produce a direct financial benefit to program participants through reduced water consumption and related energy, sewer, or other savings. In designing such programs, a decision must be made whether, and to what extent, to recover some of the costs of such programs from participating water users or to offer incentives to such participants. The Water System is said to "share the costs" of the program util tile participants to the extent that the participants pay some of the costs associated with tile conservation device or measure from which they receive a direct benefit. This Subsection sets forth a procedure for purveyor input on program cost sharing and establishes principles of allocation in the event the City and the Purveyor Committee are unable to agree on the appropriate level of cost sharing.

Prior to implementation of a *supply conservation* program, the City shall consult with the Purveyor Committee about the level of Regional Water Supply System and participant cost sharing that is appropriate for the program. Following such consultation, the City shall provide a written proposal to the Purveyor Committee that sets forth, a proposed level of cost sharing for the program in question. If the Purveyor Committee objects to the City's proposal, the Committee shall within 60 days from receipt of the City's proposal submit a good faith alternative proposal.

If such alternative proposal is not timely submitted, all relevant program costs shall be allocated as new water costs pursuant to subsection 9.C.3. The Purveyor Committee shall in writing approve or disapprove any subsequent City counter-proposal within 45 days of receipt, and the failure to act within this period shall be construed to be an approval. If the City elects to proceed with tile program at a level of cost sharing other than one approved by the Purveyor Committee, the costs of the *supply conservation* program in question shall be allocated according to the following principles:

(1) To the extent that a *supply conservation* program meets either one or both of the following two conditions, net programs costs for such portion of the program shall be allocated as *supply conservation* under Subsection 9.C.3:

(a) The program is offered or applied, or intended to be offered or applied, to residential customers. For purposes of this provision, residential customers shall mean (1) customers paying for us using service at single family dwellings or multifamily dwellings of four or fewer units; and (2) customers paying for or using service at multi-family dwellings of more than four units that are individually metered.

(b) The program is offered or applied, or intended to be offered or applied, to non-residential customers that are federal, state, or local governmental entities or schools or an organization exempt from federal taxation under section 501(c)(3) of title 26 of the United States Code; however, programs directed toward purveyor utility management, such as billing system enhancements, shall not be covered by this condition.

(2) To the extent that a *supply conservation* program does not meet condition a or b as set forth above, programs costs for such portion of the program shall be allocated one half as *supply conservation* under Subsection 9.C.3 and one half as *base conservation* under Subsection 9.C.2.

(3) If the Purveyor Committee and the City disagree over whether, or the extent to which, a program meets the above conditions, the dispute shall be submitted to the independent rate consultant, selected pursuant to Subsection 9.13 above, for a determination within 30 days of such submission.

(4) It is agreed that notwithstanding the provisions of this Subsection, that all costs of the City's existing Home Water Savers program shall for the accounting life of the program be allocated as *supply conservation* under Subsection 9.C.3.

9.E. AMORTIZATION AND FINANCING OF PROGRAM COSTS.

If a *supply conservation* program is expected to produce conservation savings for longer than one year, and if appropriate under generally accepted accounting practices, the City shall capitalize and amortize the capital costs of such program over the period during which the benefits are expected to be realized or the accounting period used for amortization. Such programs may be partially or entirely debt financed with debt maturities consistent with the period of benefit.

9.F. NEW EXPANSION FACILITY DESIGNATION FOR SUPPLY CONSERVATION PROGRAMS.

To the extent the costs of *supply conservation* programs are allocated as new water costs pursuant to subsection *9.C.3,* such programs shall be considered as New Expansion Facilities under the Contract and the costs of such programs shall be recorded in the PFA. Such facilities shall be subject to the following special provisions:

9.F.1. EQUITY VALUE UPON CONVEYANCE.

Although it is not anticipated that a conveyance will occur, if a *supply conservation* program is conveyed to another entity, the equity value of such program shall be distributed to the Purveyors in the same manner as provided for other PFA facilities under the Contract. The equity value of the program shall be determined by multiplying the program's total conveyance value, as defined in Subsection 9.F.3 below, times the ratio of Purveyor payments recorded in the PFA to the total original cost of the conservation facility.

9.F.2. CONSTRUCTIVE CONVEYANCE OF *SUPPLY CONSERVATION* PROGRAMS.

Although it is not anticipated that a conveyance will occur, *supply conservation* programs that do not involve assets that are owned by the city shall be deemed to be constructively conveyed in whole or part if the regional water supply system is conveyed or if water facilities that are directly involved with the supply of water to the purveyors are conveyed. if the entire regional water supply system is not conveyed, such programs shall be deemed to be conveyed in proportion to the ratio of the *book value* of the portion of the regional water supply system conveyed to the *book value* of the entire regional water supply system. the city shall maintain detailed records so that if such conveyance occurs information will be available to purveyors to determine the individual share of each purveyor of the equity value.

9.F.3. CONVEYANCE VALUE OF *SUPPLY CONSERVATION* PROGRAMS.

Supply conservation programs (or portions thereof) shall be deemed to have a *conveyance value* equal to their depreciated original cost. If a program has been fully depreciated, the *conveyance value* shall be zero.

9.F.4. DISCLAIMER OF BASIS FOR DETERMINING VALUE.

Nothing in Section 9 shall be interpreted or relied on to establish a basis for determining the *conveyance value* of water facilities that are not part of a *supply conservation* program.

SECTION 10. WORKING CAPITAL AND INTEREST THEREON.

Introduction:

As part of determining revenue requirements in the setting of rates, the City has included amounts for funding a cash balance to cover the time lag between payment of expenses and collection of revenue. This cash balance is commonly referred to as "working capital." The purpose of Section 10 is to clarify the methods used to determine the purveyors' share of the revenue requirement for working capital on new water and old water expenses and to credit the purveyors for interest that would be earned on working capital if invested.

Section 10.A provides for the City to set a reasonable target for purveyor working capital for each rate period. The purveyor target for the current rate period is one-eighth of the purveyors' share of operation and maintenance expenses, but the City may change that target in future rate periods as long as the target does not become negative.

Section 10.B sets forth the method for determining purveyor working capital revenue requirements for old water expenses. Under the established practice, the City contributes the funds needed to met the working capital target on old water expenses and the purveyors compensate the City for contributing such funds by paying a rate of return on the funds. The City has in the past charged the purveyors using the rate of return provided in the Contract; several purveyors have contended that rate is too high since its does not take into account the interest the City could earn on the working capital funds it contributes. Section 10.B provides that the City's average rate of interest earnings from working capital is to be subtracted from the rate of return.

Section 10.C sets forth the method for determining purveyor working capital revenue requirements for new water expenses. Unlike the practice for old water, the purveyors contribute the funds needed to met the working capital target for new water expenses. As Section 10.C provides, the amount of new water working capital purveyors contribute for each rate period is carried over to the next, so in the current rate period the purveyors contribute only any difference between the prior target and the current target. If the current target is lower than the prior target, the purveyors receive a credit to revenue requirements. Section 10.C also provides that purveyors are to be given a credit for interest the City would earn on new water working capital that the purveyors contribute if such funds were invested.

10.A. TARGET FOR PURVEYOR WORKING CAPITAL.

For each rate period, the City shall set a reasonable target for purveyor working capital. The current purveyor target is one-eighth (45 days worth) of annual operation and maintenance expenses allocated to the purveyors; however, the City may change the target in future rate periods, provided that the purveyor working capital target is not negative.

Target working capital rather than projected or actual cash balances will be used for both rate making and Purveyor Balance Account calculations. Accordingly, target working capital based on purveyor operation and maintenance expenses, rather than the purveyor share of the average cash balance of the Water Department, shall be used to determine the actual revenue requirements for purveyor working capital.

10.B. OLD WATER WORKING CAPITAL.

The purveyor revenue requirement for old water working capital shall be determined by multiplying the working capital target for purveyor old water expenses times the rate of return on working capital as set forth below. In order to credit the purveyors for interest that the City could earn on purveyor old water working capital, the rate of return on such working capital shall be based on the net difference of the rate of return provided under the Contract and the *average yield the City realized on working capital.*

The *average yield the City realized on working capital* shall I be the interest earned on cash and investments divided by total cash and investments.

If the City finds that developing or maintaining the above data proves overly burdensome, the City may alternatively use a rate of return on working capital based on the difference between the rate of return and the 90-day Treasury bill rate.

Example of 10.B:

Assume that old water expenses allocated to purveyors for a given year are $6,000,000, and that the current target for working capital is one-eighth of such expenses. Assume further the rate of return is 7% and the *average yield the City realized on working capital is 4%.* For that year, the purveyor revenue requirement for old water working capital would be $750,000 ($6,000,000/8) times 3% (7%-4%) for a total of $22,500.

10.C. NEW WATER WORKING CAPITAL.

The purveyor revenue requirement for new water working capital shall be the increase or decrease in cash necessary to bring working capital for purveyor new water expenses from its prior target to its current target.

In order to credit the purveyors for interest that the City could earn on purveyor new water working capital, the purveyors shall receive a credit against purveyor revenue requirements for new water based on their cumulative contributions to working capital attributable to new water activities and facilities. The credit shall be equal to the *average yield realized by the City on working capital* (or alternatively, the 90-day Treasury bill rate) as provided in Subsection 10.B times the cumulative purveyor working capital contributions for new water.

Example of 10.C:

Assume that new water expenses allocated to purveyors for a given year are $160,000, and that the current target for working capital is one-eighth of such expenses. Assume further that the target for new water working capital for the prior year is $15,000. and that the *average yield the City realized on working capital* for the current year is *4%*. For the current year, the purveyor target for new water working capital would be $20,000 ($160,000/8). Accordingly, the purveyor revenue requirement for new water for such year would be $5,000 ($20,000 - $15,000). The purveyor interest credit would be $800 ($20,000 x *4%)*.

10.D. INTEREST EXPENSES FOR CASH MANAGEMENT.

If the City charges the purveyors for working capital, the City shall not in addition allocate to the purveyors any interest expenses associated with short-term borrowing for working capital; provided that interest expenses on balances in the Purveyor Balance Account shall not be affected by this provision.

SECTION 11. ALLOCATION OF COSTS FOR REGIONAL FACILITIES INSIDE CITY DIRECT SERVICE AREA.

The costs associated with any facilities, whether located inside or outside the limits of the City direct service area, which are used in supplying water to purveyors may be proportionately allocated to the purveyors. Such allocation shall not be precluded because such costs have not been so allocated in past rate studies.

SECTION 12. ALLOCATION OF WATERSHED COSTS.

The primary purpose of the City's mountain watersheds is to secure and safeguard the supply of high quality water entering the system. Recognizing that these large watershed areas and their multiple resources have been subject to environmental losses associated with water supply facilities and are unavailable for general public access, the City's watershed management policies provide for certain secondary uses which do not interfere with the City's ability to carry out its primary purposes and which provide mitigation for such losses and lack of access. These secondary use policies allow such activities as cultural resource protection, research and public education programs, habitat preservation, and controlled timber harvest. The capital and operation and maintenance costs associated with the adopted primary and secondary uses represent costs of water supply and shall therefore be allocated to purveyors in a manner consistent with other water supply costs, except that direct and indirect costs which would not be incurred absent revenue generating activities (commercial timber harvest, hydropower generation) shall not be allocated to purveyors, unless a corresponding share of the resulting revenues is credited to purveyors. Before changing any policies regarding secondary uses for the Cedar River Watershed or establishing such policies for the Tolt River Watershed, the City will describe to the Purveyors the scope of the proposed change, any cost or revenue implications, and the basis for concluding that the proposed change will not interfere with the City's ability to protect water quality. The City will seriously consider the Purveyors' comments and concerns.

SECTION 13. FUNDING PURVEYOR COSTS.

The City shall budget and reimburse administrative support expenses of the Purveyor Committee through an agreement with the Purveyor whose representative serves as Chair, providing such an agreement can be reached. Such agreement shall specify the administrative support services planned and eligible for reimbursement, the maximum amount of reimbursement, and the form of documentation required. Compensation paid to the Chair of the Purveyor Committee or other representatives to the Committee is not eligible for reimbursement. All reimbursed administrative support costs shall be allocated to the purveyors and recovered through the wholesale rates.

The agreement between the City and the Purveyor Committee Chair's individual jurisdiction assumes that the reimbursable administrative support services will be provided by and through the individual jurisdiction. Unless specifically authorized by the Chair and a reimbursable type of expense, expenditures of other Purveyors will not be eligible under this agreement.

Professional, technical, legal or other expert services are not covered by this agreement and are not eligible for the reimbursement arrangements described here. However, nothing herein precludes individual Purveyors, groups of Purveyors, or the Purveyor Committee from raising funds independently of the City and engaging such services.

SECTION 14. SECONDARY BENEFITS TO SPECIFIC PURVEYORS

Before entering into a bilateral agreement with an individual Purveyor, or a multilateral agreement with a number of Purveyors, to undertake a joint action or project involving more than $15,000 in direct costs, the City will notify the Purveyor Committee and fully describe the proposed terms of such agreement, including any proposed allocation of costs based on anticipated benefit. The City will seriously consider any comments or concerns expressed by the Purveyor Committee before entering into the agreement and will inform the Purveyors of the reasons for its decision.

Some projects or actions, either joint or unilateral, may not require a specific site within the service area in order to meet their intended systemwide purposes. If such projects or actions are also likely to provide significant secondary benefits to a specific Purveyor, the City will consider "siting" the project or action through a process that "auctions" the opportunity among interested Purveyors.

SECTION 15. INFORMATION TO BE SUPPLIED TO PURVEYORS WITH RATE STUDIES.

As part of each rate study, the City will provide the Participating Purveyors with the following information in additional to other information which may be required:

i. Information on the amount of and basis for allocating costs to purveyors for projects which are not specifically plant-in-service but which produce benefits lasting more than one year and which are capitalized and amortized over the life of the assets involved.

ii. Information on the basis for general fund service charges, on the dollar amounts involved, and on the basis for allocating portions of these costs to the purveyors.

iii. Information on any changes in the employer contribution to the City Retirement Fund and an estimate of the impact of such changes on the amount of revenue required from purveyors.

SECTION 16. TERM OF THIS AMENDMENT

This Amendment shall take effect upon the later date that this Amendment is signed by the Participating Purveyor or by the Mayor of the City, as appears on the Signature Page of this Amendment, and shall continue in effect until the termination of the Contract, except as specifically provided in Subsection 6.F. of this Amendment.

SECTION 17. EFFECT OF THIS AMENDMENT.

Except as may be expressly provided herein, the rights and the duties provided for in the Contract shall remain unchanged by this Amendment. Further, except as may be expressly provided herein, the language and the provisions herein shall not be used as proof or evidence of the intent of the parties under the Contract. Further, except as may be expressly provided herein, the definitions and the provisions of this Amendment are applicable only to the provisions of this

Amendment and do not affect or alter the Contract. If any provision of this Amendment is held by a court of competent jurisdiction to be illegal, invalid, or void, the remaining provisions shall be given full force and effect, unless the invalid portion is found by such court to render performance of the Amendment unworkable or to seriously affect consideration, in which case, the entire Amendment shall be invalid and void.

SECTION 18. DISCLAIMER.

Nothing in this Amendment shall obligate the City, or be construed to indicate an intent on part of the City, to sell, convey, or transfer, voluntarily or involuntarily, the Regional Water Supply System, the *Tolt Pipeline* or any part thereof. Further, nothing in this Amendment shall diminish or limit the City's exclusive right to operate and maintain the Regional Water Supply System or any part thereof. This Disclaimer is applicable to each and every section of this Amendment and shall be controlling in any forum or court of law.

SECTION 19. CONVERSION OF VERSION A OF THE WATER PURVEYOR CONTRACT TO VERSION B

The City and any Participating Purveyor that has entered Version A, and any amendments thereto, hereby agree to convert Version A to Version B, as amended on February 3, 1982, and February 26, 1982. This conversion shall be deemed to relate back to the date that Version A became mutually binding, and this Amendment shall apply to the Participating Purveyor as if such purveyor had initially entered Version B; except that pursuant to this Amendment and conversion no equity interest in the Purveyor Facilities Account under Section IILF of Version B shall be conferred for New Expansion Facility costs allocated prior to January 1 of the year in which this Amendment takes effect.

SIGNATURE PAGE

IN WITNESS WHEREOF, the parties hereby execute this First Amendment to the Water Purveyor Contract.

Participating
Purveyor:____

A_______________corporation

BY:____

ITS:____(SEAL)

DATE:__________________

AUTHORIZING LEGISLATION:____________________________________

CITY: THE CITY OF SEATTLE
A MUNICIPAL CORPORATION

BY:____(SEAL)
MAYOR

DATE:_______________________________

AUTHORIZING LEGISLATION: ORDINANCE____________

CONSERVATION PROGRAM CLASSIFICATION

(LC) LOCAL CONSERVATION
(BC) BASE CONSERVATION
(SC) SUPPLY CONSERVATION

Regulatory Programs	
Rate Incentives	(BC)
Landscaping and Water Use Codes	(BC)
Code Enforcement	(LC)
Water Watchers	(LC)
Seasonal Programs	
Water Calendars	(BC)
Media Campaign	(BC/LC)
Water Shortage Response (note 1)	(BC/LC)
Local Customer Interface	(LC)
Education-Training	
School Curriculum (note 2)	(BC/LC)
School Programs	(LC)
Home Show Demonstrations	(BC)
Demonstration Gardens	(LC)
Training Programs	(BC/LC)
Technical Assistance	
Residential Audits	(LC)
Commercial/Industrial Audits (note 3)	(SC/BC)
Irrigation Audits/ET Systems (note 3)	(SC/BC)
Technical Studies (note 4)	(SC/BC)
Programmatic	
Commercial Toilet Retrofit	(SC)
Residential Toilet Retrofit	(SC)
Home Water Savers Program	(SC)
Non-Revenue Water Reduction (note 5)	(SC/LC)
Leak Detection and repair (note 5)	(SC/LC)
Reuse (note 6)	(SC)

Administration	
Data Base and Program Monitoring (note 4)	(SC/BC/LC)
Retail Customer Inquiries	(LC)
Media Coordination (note 4)	(SC/BC/LC)
Market Surveys	(BC/LC)
Coalition Membership	(LC)
Drought/Emergency Response	(BC)

Notes:

1. The coordination of the development of local plans through providing consistent formats, and plan review and approval would be BC. The actual development of local plans would be LC.

2. Coordination on state programs or the development of model programs would be BC. Coordination with individual school districts would be LC.

3. The costs of audits that lead directly to SC program implementation will be treated as a SC program cost. The costs of audits that are preformed for educational or informational purposes, or that expect that participants will fund program implementation, will be treated as a BC program cost.

4. Costs are to classified the same way as the program being studied, monitored, or promoted.

5. Water saving efforts on the regional system shall be SC. Distribution system costs shall be LC.

6. The Amendment covers only a narrowly defined category of reuse. See Section 9.C.4.